DELMARVA POWER & LIGHT COMPANY

BEFORE THE
DELAWARE PUBLIC SERVICE COMMISSION
DIRECT TESTIMONY OF FREDERICK J. BOYLE
DOCKET NO. _____

Q1. Please state your name and position.

A1. My name is Frederick J. Boyle. I am Senior Vice President and Chief Financial Officer of Pepco Holdings, Inc. (PHI). I am testifying on behalf of Delmarva Power & Light Company (Delmarva or the Company).

Q2. What are your responsibilities in your role as Senior Vice President and Chief Financial Officer?

A2. I am responsible for all financial matters related to PHI and its three utility subsidiaries, including Delmarva. My responsibilities include: accounting and financial reporting; treasury operations; pension administration; strategic planning; and investor relations.

Q3. Please state your educational background and professional experience.

A3. I hold a Bachelor of Science degree in Business Administration from The Ohio State University and a Master of Tax from Capital University. I am a Certified Public Accountant.

I joined PHI in April 2012 as Senior Vice President and Chief Financial Officer. Prior to joining PHI, I was Senior Vice President and Chief Financial Officer of Dayton Power and Light Company (Dayton), an Ohio-based electric company serving over 500,000 customers in West Central Ohio with a market capitalization of $3.5 billion. At Dayton, I was responsible for all finance, accounting, tax, risk management, treasury, planning, and development activities. Prior to joining Dayton, I served as Vice President of Finance for Direct Energy and as Chief Financial Officer for Accent Energy; both companies are retailers of energy and related services in North America. Prior to these roles, from 1984 to 2002, I served in financial and accounting roles at American Electric Power Service Corporation one of the nation's largest energy companies, serving in leadership roles in the areas of tax, corporate planning, budgeting, and corporate development with the most senior role as Vice President of Financial Services for the corporate development department. I began my career with the accounting firm of Deloitte & Touche.

Q4. What is the purpose of your Direct Testimony?

A4. The purpose of my Direct Testimony is to: (a) provide an overview of the Company's application for an increase in base distribution rates; (b) briefly summarize the testimony of the Company's witnesses; (c) discuss why it is important for Delmarva's customers that the Company have access to capital on reasonable terms and from where that capital comes; (d) discuss Delmarva's proposed capital structure and proposed rate of return; and (e) discuss the economic impacts that the Company provides to the State of Delaware.

This testimony was prepared by me or under my direct supervision and control. The source documents for my testimony are Company records and public documents. I also rely upon my personal knowledge and experience.

Q5. What are the main factors driving this filing?

A5. Delmarva has been investing and plans to continue to invest in its infrastructure to enhance reliability and harden its electric distribution system for its customers. As demonstrated in the Direct Testimony of Company Witness Maxwell, the investment is showing real and measureable results for customers. However, Delmarva is not now earning, and has not for a significant period of time earned, its authorized return on equity. Despite this cycle of under earning, Delmarva has continued its implementation of major reliability enhancements, requiring significant amounts of capital, which address both infrastructure replacement and system enhancements. This case is driven by these on-going investments on behalf of Delmarva's customers and by the fact that, during periods of low customer growth and significant capital investment, the use of historic rate base ensures that the Company will not have an opportunity to earn its authorized rate of return. In addition, the Company has incurred significant costs to respond to recent severe storms, including Hurricane Sandy, which impacted Delaware on October 29, 2012.

Q6. Please describe the Company's application.

A6. This filing consists of the application for an increase in base distribution rates, together with my Direct Testimony and the Direct Testimony of six other witnesses. As described more fully below, those witnesses and the topics they address are as follows:

- Mr. Robert B. Hevert, Managing Partner, Sussex Economic Advisors, LLC, provides testimony and schedules in support of the Company's proposed cost of equity.
- Mr. Michael W. Maxwell, Vice President, Asset Management, provides testimony and schedules on Delmarva's significant investments in reliability.

- Mr. Jay C. Ziminsky, Manager, Revenue Requirements, provides testimony and schedules in support of the Company's revenue requirement, the test year selection, and proposed ratemaking adjustments.
- Ms. Marlene C. Santacecilia, Regulatory Affairs Lead, provides testimony and schedules in support of the proposed rate design and Delmarva's proposed tariffs.
- Ms. Kathleen A. White, Assistant Controller, provides testimony and schedules in support of the Company's accounting books and records and PHI's cost and accounting procedures.
- Mr. Elliott P. Tanos, Manager, Cost Allocation, provides testimony and schedules in support of the Company's cost of service studies.

Q7. Please summarize the Company's rate increase request.

A7. The Company is requesting a $42.044 million increase in base distribution revenue based on a calendar year 2012 test period consisting of twelve months of actual results. The Company is requesting recognition in rate base of reliability and plant additions that will be placed into service through December 31, 2013 to allow Delmarva to recover costs associated with the important reliability and capital investments as those investments are used to provide service to customers.

The request is also based on a rate of return on equity (ROE) of 10.25%. This ROE represents the lower end of the range of returns that Company Witness Hevert found reasonable.

Q8. Why is it necessary for the Company to file for an increase in distribution rates only fifteen months after the Company filed its last case?

A8. The Company filed its prior distribution base rate proceeding, Docket No. 11-528 on December 2, 2011. The Company's test period in that case reflected operating expenses through December 2011. Docket No. 11-528 was concluded through final Commission Order No. 8265, issued on December 18, 2012. In the 15 months that have passed since the filing of that case, and despite the fact that Delmarva is not currently earning its authorized rate of return, Delmarva continues to make significant investments in Delaware's electric system and plans to make infrastructure investments of approximately $397 million in Delaware over the next five years to serve Delmarva's customers. This level of investment, which is required to address infrastructure replacement and to enhance and maintain the reliability of the Company's system, is far in excess of the book depreciation the Company is recovering in rates.

As a consequence, rate base is growing. While significant capital is needed to maintain and upgrade the system, Delmarva is not realizing sufficient growth in the number of customers and load served to offset this pace of investment. Therefore, these investments are being funded on the front end by the Company's debt and equity investors with an expectation that they will receive an opportunity to earn a reasonable return on their investment. Because Delmarva competes with other companies when attempting to raise capital, it is important for Delmarva to be able to demonstrate to its investors that there is a realistic opportunity to earn a rate of return that is commensurate with the rate of return earned by other companies of similar risks. In fact, as Company Witness Ziminsky demonstrates in his Direct Testimony, after annualizing the rates authorized by the Commission in Docket No. 11-528, Delmarva will only earn a 5.59% return on equity during the 2012 test period, which is significantly below the currently authorized ROE of 9.75%.

Q9. What is the potential impact on customers and the Company if Delmarva is unable to receive a reasonable opportunity to earn its authorized rate of return?

A9. Delmarva is concerned that it will not be able to satisfy the needs of its customers, the communities it serves, and its investors if appropriate rate relief is not provided. As discussed in the Direct Testimony of Company Witness Maxwell, Delmarva has demonstrated that it has made, and continues to make, significant enhancements in system reliability. While the Company remains committed to continue those improvements, the ability to do so will become limited and more costly if Delmarva's access to the capital markets on reasonable terms is constrained. No company can continue to function efficiently if forced into an indefinite period of earning returns significantly below market. Such a condition threatens a company's ability to attract capital on reasonable terms, and could also contribute to credit downgrades and other operating constraints which will ultimately result in increased costs to customers.

Q10. What overall rate of return is Delmarva requesting?

A10. As shown in Schedule (FJB)-1, the Company is requesting an overall rate of return (ROR) of 7.53% on its distribution rate base.

Q11. On what capital structure is the overall rate of return based?

A11. The overall ROR is the weighted average cost of capital, based on the Company's December 31, 2012 capital structure ratios of 49.22% common equity and 50.78% long-term debt, its embedded long-term debt cost of 4.91% (see Schedule

(FJB)-1) and its proposed return on common equity of 10.25%, as determined by Company Witness Hevert. This capital structure is consistent with Delmarva's goals and objectives including maintaining its current credit ratings.

Q12. Is this capital structure consistent with industry practice and averages?

A12. Yes. The Company's recommended capital structure is consistent with the 2011 full-year and 2012 year-to-date reported averages of 47.97% and 50.55%, respectively, of the common equity ratios of electric utilities as published in the January 17, 2013 edition of Regulatory Research Associates' "Regulatory Focus: Major Rate Case Decisions."

Q13. Are there other reasons this capital structure is appropriate for use in this proceeding?

A13. Yes. As indicated in the Direct Testimony of Company Witness Hevert, the Company's recommended capital structure is reasonable given a mean common equity ratio of 52.05% and 47.95% long term debt (range between 48.30% and 60.00%) for the 12 companies comprising his peer group for the purpose of determining the cost of equity in this proceeding.

Q14. What are the Company's credit ratings by the major rating agencies?

A14. Delmarva's long-term corporate credit ratings (unsecured debt ratings) are BBB+, Baa2 and A- from Standard & Poor's (S&P), Moody's and Fitch, respectively. As noted in S&P's "Industry Report Card," dated October 22, 2012, 63% of U.S. investor-owned electric utilities carry ratings from BBB- to BBB+, with an additional 35% rated A- or better.

Q15. Please briefly describe the importance of the Company's credit ratings.

A15. As previously stated, the Company's credit ratings indicate the rating agencies' assessment of Delmarva's ability to meet its obligations to its long-term debt holders. The higher the credit rating, the greater the perceived likelihood that debt investors will receive their interest and principal payments as expected. As such, a company with a higher credit rating has access to a larger investor base, faces fewer restrictive covenants and can issue long-term debt at lower cost. This is particularly advantageous today given the Company's plans to invest a significant amount of capital in system reliability, demand response and customer service enhancements, as addressed in the testimonies of Company Witnesses Maxwell and Ziminsky.

Conversely, lower credit ratings reflect increased investor risk. As a result, investors expect to be paid more to provide funds to such an issuer. In addition, lower credit ratings typically result in investors demanding more restrictive terms and covenants from the issuer. Lower credit ratings also limit the pool of investors that may otherwise invest in the Company due to ratings restrictions imposed by some institutional investors. These additional costs associated with lower credit ratings will only increase the costs to Delmarva's customers.

Q16. What is the impact of the requested rate increase on an average residential customer?

A16. The impact of the requested rate increase on a typical residential customer's total monthly bill is $7.63. This equates to $0.25 a day in increased electric rates. The Company acknowledges that any increase can be difficult for customers.

Q17. Does the Company plan to place an interim increase of $2.5 million into effect as permitted under 26. Del. C. § 306 (c)?

A17. Yes. If the Commission chooses to suspend the proposed rate changes for the full suspension period, the Company plans to place in effect, on June 1, 2013, subject to refund, an interim annual increase of approximately $2.5 million. Modified Tariff Leafs reflecting the interim increase are supported by Company Witness Santacecilia and are included in this Application. With the proposed interim base rate increase, on June 1, 2013, a typical residential customer using 1,000 kWh would see a bill increase of $0.53 or 0.38%, from $141.23 to $141.76.

Q18. What economic impact does Delmarva have on the Delaware economy?

A18. As of December 31, 2012, Delmarva provided full-time employment to 1,456 people who work in Delaware and remitted $5.7 million in state and local payroll taxes from their compensation. In addition, Delmarva paid $12.4 million in school and property taxes, which are an important source of public funding for Delaware.

While it would be difficult to tie exact numbers to the following, it is clear that a reliable electric system is critical to the economy. With the advent of the digital age, the economy becomes more dependent every day upon a reliable electric system. When the power is out: communication systems do not operate, computer systems go down, and cash registers do not function. Businesses need a reliable electric distribution system to function successfully. Accordingly, while enhanced system reliability is an important issue for public safety, convenience and quality of life, it is also clear that system reliability is critical to the economy of the state.

Q19. Is Delmarva working with Commission Staff and the Public Advocate on any initiatives arising out of the settlement in Delmarva's last rate case?

A19. Yes. Among the provisions in the settlement in Docket No. 11-528 was an agreement among Commission Staff, the Division of the Public Advocate (DPA) and Delmarva to meet and discuss several issues after that case was concluded. Those issues include: (1) the establishment of a mechanism(s) for reporting on reliability projects going forward; (2) an agreement to meet and discuss alternative regulatory methodologies, including a multi-year rate plan; and (3) continued discussions with Commission Staff on improving financial reporting. Delmarva has been working with Staff and DPA on those issues. It is possible that these meetings could result in proposals that would require Commission review. As discussed in the Application in this filing, to the extent any such proposals are developed and the timing of this docket is such that the proposal(s) could be considered as part of this case, Delmarva will supplement its filing to include any such proposals.

Q20. Please describe the Company's community support initiatives.

A20. Delmarva focuses on providing safe and reliable electric service to its customers. All other customer and community relationships flow from this central principle and provide many opportunities over the course of a year for the Company and its employees to interact with its customers and the communities it serves. Delmarva and The PHI Community Foundation contributed approximately $642,000 to Delaware organizations during the December 31, 2012 test year period. The corporate contributions benefited over 255 organizations to help them meet their goals.

Whether promoting improvements in education, emergency services, health and human services, programs for children and youth, or tackling the issues of hunger and homelessness, Delmarva's giving is meant to help non-profit organizations positively impact community life. These contributions are made by the Company and PHI's shareholders. The contributions are expensed below-the-line and are not funded by Delmarva's customers.

Community involvement is a core value in Delmarva's culture. It is in the best interests of Delmarva's customers and communities that the Company remains financially healthy and continues its efforts as an active member of the community and strong corporate citizen.

Q21. Please summarize your testimony.

A21. Safely serving Delmarva's customers and its communities with reliable electric service is the Company's top priority. There are many challenges ahead to address the realities of necessary infrastructure replacement and electric reliability needs of Delmarva's customers. Meeting those needs involves significant costs and a financially healthy utility is better positioned to navigate through the challenges ahead. This rate request will allow Delmarva the opportunity to earn a reasonable return on equity and to continue to invest in the electric distribution system on behalf of its customers.

Q22. Does this conclude your Direct Testimony?

A22. Yes, it does.

Delmarva Power & Light Company
Overall Rate of Return
December 31, 2012
Delaware

	DPL Delaware		
Type of Capital	Ratios	Cost Rate	Weighted Cost Rate
Long-Term Debt	50.78%	4.91%	2.49%
Common Equity	49.22%	10.25%	5.04%
Total	100.00%		7.53%

Delmarva Power & Light Company
Capital Structure and Capitalization Ratios
December 31, 2012
Delaware

Type of Capital	Actual December 31, 2012 Amount ($)	Actual December 31, 2012 Ratios
Long-Term Debt	1,023,230,000	
Unamortized Net Discount	(1,749,344)	
Unamortized Debt Issuance Expense	(5,526,574)	
Total Long-Term Debt	1,015,954,082	50.78%
Common Equity	984,604,304	49.22%
Total	2,000,558,387	100.00%

Delmarva Power & Light Company
Weighted Cost of Debt
December 31, 2012
Delaware

Issue	Coupon Rate	Maturity	Offering Date	Current: Principal Amount Outstanding	Current: Unamortized Debt Issuance Expense	Current: Unamortized (Premium)/ Discount	Current: Net Amount Outstanding	Effective Cost Rate	Annual Net Cost
First Mortgage Bonds									
	6.40%	12/1/2013	11/25/2008	$250,000,000	$407,477	$108,214	$249,484,309	6.63%	$16,543,935
	4.00%	6/1/2042	6/26/2012	$250,000,000	$2,633,474	$1,365,421	$246,001,105	4.09%	$10,062,249
Total First Mortgage Bonds				$500,000,000	$3,040,952	$1,473,635	$495,485,414		$26,606,183
Unsecured Notes									
	5.00%	11/15/2014	11/19/2004	$100,000,000	$172,095	$91,553	$99,736,351	5.12%	$5,106,276
	5.00%	6/1/2015	6/1/2005	$100,000,000	$209,419	$97,460	$99,693,121	5.11%	$5,094,348
	5.22%	12/30/2016	12/20/2006	$100,000,000	$286,652	$0	$99,713,348	5.30%	$5,282,479
Total Unsecured Notes				$300,000,000	$668,166	$189,013	$299,142,821		$15,483,103
Tax Exempt Fixed Rate Bonds									
	5.40%	2/1/2031	4/1/2010	$78,400,000	$1,299,460	$0	$77,100,540	5.55%	$4,275,718
Total Tax Exempt Fixed Rate Bonds				$78,400,000	$1,299,460	$0	$77,100,540		$4,275,718
Tax-Exempt Variable Rate Bonds									
	0.32%	10/1/2017	10/1/1987	$8,000,000	$49,743	$0	$7,950,257	0.46%	$36,638
	0.32%	10/1/2017	9/28/1988	$18,000,000	$44,479	$0	$17,955,521	0.37%	$67,269
	0.39%	10/1/2028	10/14/1993	$15,500,000	$129,756	$0	$15,370,244	0.45%	$68,399
	0.32%	10/1/2029	10/12/1994	$30,000,000	$180,247	$0	$29,819,753	0.36%	$108,780
	0.43%	7/1/2024	7/28/1999	$22,330,000	$92,045	$0	$22,237,955	0.56%	$124,334
	0.50%	7/1/2024	7/28/1999	$11,000,000	$0	$0	$11,000,000	0.59%	$64,500
Total Tax Exempt Variable Rate Bonds				$104,830,000	$496,269	$0	$104,333,731		$469,920
Medium-Term Notes Series C									
	7.58%	2/1/2017	2/10/1997	$2,000,000	$2,699	$0	$1,997,301	7.65%	$152,864
	7.56%	2/1/2017	2/18/1997	$12,000,000	$16,195	$0	$11,983,805	7.63%	$914,749
	6.81%	1/9/2018	1/9/1998	$4,000,000	$257	$7,521	$3,992,222	6.88%	$274,648
	7.61%	12/2/2019	2/12/1997	$12,000,000	$2,576	$79,175	$11,918,249	7.68%	$915,153
	7.72%	2/1/2027	2/7/1997	$10,000,000	$0	$0	$10,000,000	7.78%	$778,476
Total Medium-Term Notes Series C				$40,000,000	$21,727	$86,696	$39,891,577		$3,035,891
Total Long-Term Debt Balance - ACTUAL				$1,023,230,000	$5,526,574	$1,749,344	$1,015,954,082	4.91%	$49,870,815

Delmarva Power & Light Company
Effective Cost Rate
Long-Term Debt
December 31, 2012
Delaware

				Original				Net	
Issue	Coupon Rate	Maturity	Offering Date	Principal Amount Issued	Expense of Issuance	(Premium)/ Discount	Net Amount to Company	Amount Per Unit	Yield to Maturity
First Mortgage Bonds									
	6.40%	12/1/2013	11/25/2008	$250,000,000	$1,925,105	$512,500	$247,562,395	$99.02	6.63%
	4.00%	6/1/2042	6/26/2012	$250,000,000	$2,506,150	$1,377,500	$246,116,350	$98.45	4.09%
Unsecured Notes									
	5.00%	11/15/2014	11/19/2004	$100,000,000	$928,224	$0	$99,071,776	$99.07	5.12%
	5.00%	6/1/2015	6/1/2005	$100,000,000	$853,194	$0	$99,146,806	$99.15	5.11%
	5.22%	12/30/2016	12/20/2006	$100,000,000	$600,000	$0	$99,400,000	$99.40	5.30%
Tax Exempt Fixed Rate Bonds									
	5.40%	2/1/2031	4/1/2010	$78,400,000	$1,406,618	$0	$76,993,382	$98.21	5.55%
Tax-Exempt Variable Rate Bonds									
	0.32%	10/1/2017	10/1/1987	$8,000,000	$315,360	$0	$7,684,640	$96.06	0.46%
	0.32%	10/1/2017	9/28/1988	$18,000,000	$270,107	$0	$17,729,893	$98.50	0.37%
	0.39%	10/1/2028	10/14/1993	$15,500,000	$275,796	$0	$15,224,204	$98.22	0.45%
	0.32%	10/1/2029	10/12/1994	$30,000,000	$440,787	$0	$29,559,213	$98.53	0.36%
	0.43%	7/1/2024	7/28/1999	$22,330,000	$669,900	$0	$21,660,100	$97.00	0.56%
	0.50%	7/1/2024	7/28/1999	$11,000,000	$220,000	$0	$10,780,000	$98.00	0.59%
Medium-Term Notes Series C									
	7.58%	2/1/2017	2/10/1997	$2,000,000	$15,000	$0	$1,985,000	$99.25	7.65%
	7.56%	2/1/2017	2/18/1997	$15,000,000	$112,500	$0	$14,887,500	$99.25	7.63%
	6.81%	1/9/2018	1/9/1998	$33,000,000	$247,500	$0	$32,752,500	$99.25	6.88%
	7.61%	12/2/2019	2/12/1997	$12,000,000	$90,000	$0	$11,910,000	$99.25	7.68%
	7.72%	2/1/2027	2/7/1997	$30,000,000	$225,000	$0	$29,775,000	$99.25	7.78%